file

# ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31,

1967

STEEP ROCK IRON MINES LIMITED

SRIM LIMITED

CALAND PELLET PLANT

SRIM LIMITED

FRONT COVER PHOTO:
STEEP ROCK PELLET PLANT

SRIM LIMITED

| | | |
|---|---|---|
| BOARD OF DIRECTORS | G. E. ALLEN | *Washington, D.C.* |
| | HON. W. M. BENIDICKSON, P.C. | *Ottawa, Ontario* |
| | F. H. BLACK, O.B.E., F.C.A. | *Port Arthur, Ontario* |
| | JULIAN G. CROSS | *Port Arthur, Ontario* |
| | WM. R. DALEY | *Cleveland, Ohio* |
| | CYRUS S. EATON | *Cleveland, Ohio* |
| | NEIL EDMONSTONE, F.C.I.S. | *Steep Rock Lake, Ontario* |
| | W. J. HUSTON, P.Eng. | *Steep Rock Lake, Ontario* |
| | ROBERT L. KAISER | *Detroit, Michigan* |
| | MARK McKEE | *Oxford, Connecticut* |
| | JOHN PATERSON | *Fort William, Ontario* |
| OFFICERS | CYRUS S. EATON | *Chairman of the Board* |
| | JOHN PATERSON | *Vice-Chairman* |
| | NEIL EDMONSTONE | *President* |
| | W. J. HUSTON | *Executive Vice-President* |
| | P. E. CAVANAGH | *Vice-President Research and Sales* |
| | C. J. FITZGERALD | *Secretary-Treasurer* |
| GENERAL COUNSEL | GORDON D. WATSON, Q.C. | *Toronto, Ontario* |
| AUDITORS | THORNE, GUNN, HELLIWELL & CHRISTENSON | *Toronto, Ontario* |
| TRANSFER AGENTS | CROWN TRUST COMPANY | *Toronto, Ontario* |
| | and | |
| | CENTRAL NATIONAL BANK OF CLEVELAND | *Cleveland, Ohio* |
| CONSULTING GEOLOGISTS | A. W. JOLLIFFE, Ph.D. | *Kingston, Ontario* |
| | M. W. BARTLEY, Ph.D. | *Port Arthur, Ontario* |
| CONSULTING ENGINEER | WATKIN SAMUEL, P.Eng. | *Toronto, Ontario* |
| MINE AND EXECUTIVE OFFICES | ATIKOKAN P.O. STEEP ROCK LAKE, ONTARIO | |

## ANNUAL MEETING

The Annual General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held at the Head Office of the Company at Steep Rock Lake, Ontario, on the 1st day of March, 1968, at the hour of 10:00 o'clock in the forenoon, Eastern Standard Time.

# LETTER FROM THE PRESIDENT

TO THE SHAREHOLDERS:

Your Company's new pellet plant came into production in September and by year end had produced 274,511 tons of high quality pellets.

In this period of transition from direct shipping ore to pellets, sales and earnings were well sustained, despite difficulties which caused delays in construction postponing the start up of the pellet plant by at least two months.

From Steep Rock's own operations, sales of iron ore and pellets amounted to 1,164,671 tons in 1967. Caland Ore Company, wholly owned subsidiary of Inland Steel Company of Chicago, accounted for 2,326,102 tons of royalty ore and pellets from the leased "C" orezone. Total from the Steep Rock Range for the year was 3,490,773 tons.

Your Company's 1967 net earnings equalled $4,138,000 or 51c per share, compared with $4,104,000 in 1966. Cash flow (net earnings plus write-off for depreciation and development expenses) approximated $7,123,000 or 88c per share for 1967, as compared with $6,466,000 or 80c per share for 1966.

A dividend of 30c per share was paid on November 29, 1967, to shareholders of record November 10.

Working capital at year end was $10,354,000, compared with $9,882,000 available for corporate purposes at December 31, 1966.

## ORE RESERVES

Steep Rock deposits are high grade, averaging 54% natural iron. One ton of pellets grading 64% natural iron and 5.5% natural silica can be produced from 1⅓ tons of ore. This compares most favourably with other producing deposits where ore grades are as low as 26% iron requiring 3½ tons of ore to produce one ton of pellets grading 64% natural iron. Also it compares favourably with four of the leading underground operations where ore grades range from 49% to 55% natural iron and where 60% to 64% pellets are being produced economically.

The calculated ore reserves of the Steep Rock Range, projected to the 1,700-foot depth of the deepest drill hole below existing surface, would be sufficient to produce 487 million tons of pellets:

| | Million Tons | |
|---|---|---|
| | Reserves | Pellets |
| From the 3.8 miles of orezone operated by Steep Rock | 337 | 259 |
| From the 1.9 miles of orezone leased to Caland Ore Company | 190 | 146 |
| | 527 | 405 |
| From lean ore averaging 30% iron | 273 | 82 |
| | 800 | 487 |

Any review of ore reserves available to Steep Rock must include the large reserves of the Lake St. Joseph property in Northwestern Ontario, with an estimated capability of open pit production of ore for 160,000,000 tons of pellets to a depth of only 500 feet. Algoma Steel Corporation has acquired a substantial interest in this property.

## REVIEW AND OUTLOOK

Production of steel in 1967 in the United States was about 5½% less than in 1966, while Canadian production was down 2%.

In the United States, the industry looks for record consumption in 1968, with strong output in the first half influenced by stockpiling against a possible strike threat in August. The Canadian steel industry, which has experienced rather spectacular expansion in the past several years, expects a more moderately paced improvement in 1968.

Although iron ore is in plentiful world-wide supply, your Company's existing contracts and strategic location insulate it to some degree from supply pressure originating outside the North American continent. Prices for iron ore have been depressed by this pressure for the past six years, but it does not seem reasonable to expect domestic iron ore prices to remain unchanged in the face of continuing increases in the selling price for steel.

Tonnages totalling 3,950,000 are scheduled for the Steep Rock Range in 1968. Caland Ore Company is expected to produce 2,500,000 tons of royalty ore and pellets. Your Company has orders for 1,350,000 tons of pellets plus 100,000 tons of red ore. If, as anticipated, production from your Company's pellet plant exceeds design capacity by 10%, then a further 150,000 tons of pellets can be sold to bring Steep Rock sales to a total of 1,600,000 tons. The changeover from direct shipping ores to pellets points to a major improvement in earnings and prospective dividends. Concerted effort is being directed toward improving efficiency and costs, as well as expanding production.

## BOARD AND MANAGEMENT CHANGES

Hon. C. J. Burchell, P.C., Q.C., who was a valued member of the Steep Rock Board of Directors for fifteen years, died on August 12, 1967.

After 29 years of dedicated service to Steep Rock and predecessor companies, M. S. Fotheringham requested and was granted early retirement as President and a Director. John Paterson, a Director since 1949, was elected to the newly created position of Vice-Chairman. Neil Edmonstone, who had held the posts of Vice-President and Secretary-Treasurer since 1943, was elected President. W. J. Huston, who had been Vice-President-Operations became Executive Vice-President. Robert L. Kaiser, Vice-President, Assistant to President of Detroit Steel Corporation has been elected to the Board to succeed Hon. C. J. Burchell.

## ACKNOWLEDGEMENT

The management of your Company acknowledges the continued loyal co-operation of shareholders and employees during this challenging transition period.

By Order of the Board

NEIL EDMONSTONE

President

January 24, 1968

# STATEMENT OF EARNINGS

Year ended December 31, 1967

| | | 1966 for Comparison |
|---|---|---|
| **Income** | | |
| Sales (mine value) and other operating revenue | $ 10,201,639 | $ 10,283,074 |
| Royalty and investment income | 4,202,581 | 4,053,361 |
| | 14,404,220 | 14,336,435 |
| **Costs and Expenses** | | |
| Operating costs, other than below | 5,363,317 | 6,302,467 |
| Selling, administrative and corporate expenses | 716,243 | 678,845 |
| Interest on bonds and royalty loan | 926,313 | 448,112 |
| Exchange loss on bonds and royalty loan payments | 87,838 | 241,177 |
| Depreciation (Note 13) | 2,119,772 | 1,723,643 |
| Deferred development expenditures written off (Note 13) | 608,395 | 618,779 |
| Research expenditures written off (Note 6) | 256,579 | |
| Outside exploration expenditures and write-offs | 187,616 | 219,021 |
| | 10,266,073 | 10,232,044 |
| **Net Earnings** for the year (Notes 3, 15, 16 and 17) | $ 4,138,147 | $ 4,104,391 |

ROBERTS OPEN PIT AND PELLET PLANT IN BACKGROUND

# STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1967

| | | 1966 for Comparison |
|---|---|---|
| Balance at beginning of year | $ 73,280,026 | $ 72,578,589 |
| Add: | | |
| Net earnings for the year | 4,138,147 | 4,104,391 |
| Appropriation for decline in market value of marketable securities no longer required | 400,000 | |
| | 77,818,173 | 76,682,980 |
| Deduct: | | |
| Dividend — 30c per share | 2,419,096 | 2,419,096 |
| Financing costs | 6,137 | 583,858 |
| Appropriation for decline in market value of marketable securities | | 400,000 |
| | 2,425,233 | 3,402,954 |
| Balance at end of year | $ 75,392,940 | $ 73,280,026 |

CONTROL ROOM
STEEP ROCK PELLET PLANT

# STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES

Year ended December 31, 1967

| | | 1966 for Comparison |
|---|---|---|
| Balance deferred at beginning of year | $ 72,326,947 | $ 69,755,774 |
| Overburden removal | 4,828,882 | 5,002,741 |
| Pumping, etc. | 57,589 | 85,258 |
| Structural drilling from underground | 295,071 | 188,033 |
| Depreciation (Note 13) | 82,244 | 412,928 |
| Total expenditures for the year | 5,263,786 | 5,688,960 |
| | 77,590,733 | 75,444,734 |
| Deduct amounts written off to operations (Note 13): | | |
| Operating costs | 2,977,614 | 2,499,008 |
| Deferred development written off | 608,395 | 618,779 |
| | 3,586,009 | 3,117,787 |
| Development expenditures prior to mines going into production and $5,367,226 ($3,434,811 in 1966) subsequent overburden removal costs deferred at end of year | $ 74,004,724 | $ 72,326,947 |

SOUTH END OF ROBERTS OPEN PIT

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1967

| | | 1966 for Comparison |
|---|---|---|
| **Source of Funds** | | |
| Net earnings as per statement of earnings | $ 4,138,147 | $ 4,104,391 |
| Add depreciation and amortization which did not represent cash outlay | 2,984,746 | 2,361,323 |
| Funds from operations | 7,122,893 | 6,465,714 |
| Sale of fixed assets | 275,864 | 84,853 |
| Sale of bonds, net | | 29,434,846 |
| Other items, net | 10,958 | 47,077 |
| Transfer from capital funds | 11,080,000 | |
| Allowance for decline in market value of marketable securities no longer required | 400,000 | |
| | 18,889,715 | 36,032,490 |
| **Application of Funds** | | |
| Expenditures deferred in current year | 2,952,281 | 3,590,546 |
| Less depreciation which did not represent cash outlay | 82,244 | 425,418 |
| | 2,870,037 | 3,165,128 |
| Additions to fixed assets | 11,277,740 | 17,373,619 |
| Payment on royalty loan | 945,557 | 793,018 |
| Transferred to capital funds | | 11,080,000 |
| Dividend | 2,419,096 | 2,419,096 |
| Allowance for decline in market value of marketable securities | | 400,000 |
| Principal payment on funded debt due within one year transferred to current liabilities | 905,848 | |
| Increase in working capital | 471,437 | 801,629 |
| | 18,889,715 | 36,032,490 |
| **Working Capital** (current assets less current liabilities) | | |
| Balance at beginning of year | 9,882,088 | 9,080,459 |
| Increase during the year | 471,437 | 801,629 |
| Balance at end of year | 10,353,525 | 9,882,088 |
| **Capital Funds** | | 11,080,000 |
| **Total Funds** at end of year | $ 10,353,525 | $ 20,962,088 |

# NOTES TO FINANCIAL STATEMENTS

SRIM LIMITED

1. MARKETABLE SECURITIES

Marketable securities are valued at cost in 1967; at cost less $400,000 allowance for decline in market value in 1966 (quoted market value 1967 — $2,228,000; 1966 — $1,232,055).

2. ACCOUNTS RECEIVABLE

Accounts receivable include amounts for ore sold but not yet shipped amounting in 1967 to $2,533,838; (1966 — $1,151,996).

3. CHANGE IN ACCOUNTING PRACTICE

Coincident with the commencement of pellet plant production in 1967 which provides a continuous operation, iron ore produced in 1967 in excess of pellet plant requirements or for subsequent shipment and pellets produced but not yet shipped, have been valued at the lower of cost and net realizable value. The inventory value at December 31, 1967 of this ore and pellets, $1,136,347, has been deducted in determining the operating costs for the year in accordance with usual manufacturing and commercial practice. The inventory value will be carried forward and charged to operating costs in the year in which the resultant product is sold.

4. MINING PROPERTIES

Mining properties are carried at $4,386,393, comprising a purchase cost of $2,459,456 and a valuation adjustment made in 1943 of $1,926,937.

5. SUBSIDIARY COMPANIES NOT CONSOLIDATED

Investment in subsidiary companies, $146,324, represents the company's investment in Steerola Explorations Limited, Sanjo Iron Mines Limited and Vanco Explorations Limited and comprises shares at cost, $38, and advances $146,286.

An investment in another subsidiary company, Don Park Homesites Limited (a limited dividend housing corporation) is included in the balance sheet heading "Investment in town housing" and is comprised of shares and debentures at cost, $105,953, and advances $526,552.

The accounts of these subsidiaries have not been consolidated because their operations are not of significant importance to the company's operations. The subsidiary companies have no retained earnings and no profit or loss in their 1967 fiscal periods. The unpaid interest on Don Park Homesites Limited debentures (all of which are held by the parent company) and on advances from the parent company, has not been taken into the earnings of the company.

6. DEFERRED RESEARCH EXPENDITURES

These represent experimental capital and operating expenditures on ore processing methods for special products after deducting the proceeds of trial shipments of the product and the Scientific Research Grant. These deferred expenditures are being written off over five years.

7. FUNDED DEBT

| | |
|---|---|
| First mortgage sinking fund 6% bonds maturing December 1, 1987 ($31,000,000 U.S.) | $33,350,704 |
| (blended payments of principal and interest are approximately $2,702,721 U.S. annually for 20 years) | |
| Less principal payment due within one year included in current liabilities ($842,000 U.S.) | 905,848 |
| | $32,444,856 |

8. ROYALTY LOAN

The principal and interest at 3¾% are payable only by application of a portion of the royalties received from the lessee of "C" ore zone. The principal outstanding at December 31, 1967 is $4,768,437 ($4,842,341 U.S.).

9. CAPITAL STOCK

The indenture securing the first mortgage sinking fund 6% bonds provides that the company may not effect any reduction of or redeem any of its capital stock nor declare any dividends on any shares of its capital stock should the working capital be less than, or be reduced thereby below, $5,000,000.

10. JOINT VENTURE

The company signed a joint venture agreement in 1965 covering a minimum period of 22 years, under which the joint venture partner acquired title to a specific tonnage of the company's open pit ore reserves. The ore is being mined and pelletized by Steep Rock Iron Mines Limited. Pelletizing operations commenced in September, 1967.

11. BASIS OF CONVERSION OF ACCOUNTS CARRIED IN UNITED STATES DOLLARS

Funded debt and royalty loan have been converted at the rates of exchange prevailing on the dates the proceeds were received; investments in U.S. securities were converted at the rates of exchange prevailing at the date of purchase. Other accounts have been converted at the rates of exchange prevailing at December 31, 1967.

12. CONTINGENT LIABILITIES

In addition to the sums advanced on a loan basis, the company has entered into various agreements including mortgage guarantees with respect to financing and operating employees' housing plans. The contingent liability involved in these arrangements at December 31, 1967 was approximately $225,600.

The contingent liability in respect of contracts for equipment, outstanding agreements, etc., at December 31, 1967 amounts to approximately $772,300.

13. DEPRECIATION AND AMORTIZATION

Depreciation is calculated in respect of some assets on a straight-line basis at annual rates ranging from 5% to 33⅓%, and in respect of other assets on a

unit-of-production basis. These rates are designed to provide fully for the cost of buildings, machinery and equipment over their useful lives. As in prior years, the proportion applicable to the non-producing mine has been charged to deferred development expenditures.

Deferred overburden removal (stripping) costs are charged to development in the statement of earnings on the basis of tons of ore mined. Deferred development expenditures are amortized on the basis of tons of ore shipped in relation to the estimated ore reserves of presently developed mines. The bases of amortization are subject to the economic recovery and sale of ore in sufficient quantity to fully amortize the deferred expenditures.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The direct remuneration of directors and senior officers amounted to $185,269 for 1967 and $167,454 for 1966.

15. PENSION BENEFITS

Past service liabilities assumed by the company under its retirement plans amounted to approximately $1,936,000 at December 31, 1967. The company proposes that these liabilities will be paid and charged against earnings over periods ranging up to twenty-one years.

16. INCOME TAXES

Under the provisions of the income tax acts the company claims depreciation in excess of the amounts charged to earnings, and so no income taxes are payable for 1967. Similarly development expenditures have been claimed in prior years in excess of the amounts charged to earnings. The taxes so deferred in this and prior years, calculated at the rates applicable in the respective years, amount to $16,554,000 of which $1,705,700 is applicable to 1967 ($1,701,200 in 1966). These tax savings may be offset in future years when the amounts of development expenditures and depreciation which may be claimed for tax purposes will be less than the amounts then charged to earnings.

17. UNITED STATES SECURITIES AND EXCHANGE COMMISSION FILING

Statements filed with the above Commission are required to contain provisions for the depletion of mining properties and deferred income tax. In accordance with the company's accounting practice in Canada no provision for depletion is entered in its books of account and deferred income tax is reported by way of a note to the financial statements (see note 16).

The amounts so charged in the statements to be filed with the United States Securities and Exchange Commission in respect of 1967 for depletion is $49,120 (total to date $1,512,657) and for deferred income tax is $1,705,700 (total to date $16,554,000).

# AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of
Steep Rock Iron Mines Limited

We have examined the balance sheet of Steep Rock Iron Mines Limited as at December 31, 1967 and the statements of earnings, retained earnings, deferred development expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the bases of amortization set out in Note 13, these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in accounting practice, to which we take no exception, as explained in Note 3 to the financial statements.

THORNE, GUNN, HELLIWELL & CHRISTENSON
CHARTERED ACCOUNTANTS

TORONTO, CANADA
JANUARY 16, 1968

## 10 YEARS IN REVIEW

| | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Thousands of Dollars) | | | | | | | | | |
| Income | | | | | | | | | | |
| Sales and operating revenue — net | $10,202 | 10,283 | 10,325 | 10,519 | 8,520 | 7,733 | 9,684 | 12,004 | 19,495 | 8,510 |
| Royalty and other income | 4,202 | 4,053 | 4,491 | 3,883 | 3,798 | 3,995 | 2,144 | 2,002 | 301 | 57 |
| | 14,404 | 14,336 | 14,816 | 14,402 | 12,318 | 11,728 | 11,828 | 14,006 | 19,796 | 8,567 |
| Operating expense | 6,080 | 6,981 | 8,390 | 6,711 | 5,532 | 6,069 | 5,870 | 7,200 | 7,393 | 5,004 |
| | 8,324 | 7,355 | 6,426 | 7,691 | 6,786 | 5,659 | 5,958 | 6,806 | 12,403 | 3,563 |
| Interest, etc. | 926 | 448 | 511 | 662 | 784 | 600 | 124 | 315 | 431 | 581 |
| Profit before write-offs | 7,398 | 6,907 | 5,915 | 7,029 | 6,002 | 5,059 | 5,834 | 6,491 | 11,972 | 2,982 |
| Write-offs | 2,985 | 2,343 | 2,030 | 1,918 | 1,437 | 1,205 | 1,395 | 1,720 | 2,457 | 1,640 |
| | 4,413 | 4,564 | 3,885 | 5,111 | 4,565 | 3,854 | 4,439 | 4,771 | 9,515 | 1,342 |
| Outside exploration | 187 | 219 | 173 | 128 | 197 | 195 | 361 | 535 | 132 | 108 |
| Other expenses | 88 | 241 | 85 | 184 | 168 | 225 | 48 | 119 | (66) | (48) |
| Provincial taxes | | | | | | | | (41) | 400 | (104) |
| Net earnings | 4,138 | 4,104 | 3,627 | 4,799 | 4,200 | 3,434 | 4,030 | 4,158 | 9,049 | 1,386 |
| Earnings per share | $ 0.51 | 0.51 | 0.45 | 0.60 | 0.52 | 0.43 | 0.50 | 0.52 | 1.13 | 0.17 |
| Dividends per share | $ 0.30 | 0.30 | 0.30 | 0.25 | 0.20 | 0.20 | | | | |
| Iron Ore—Tons (000) | | | | | | | | | | |
| Sales and shipments | 1,165 | 1,236 | 1,264 | 1,241 | 1,033 | 963 | 1,214 | 1,586 | 2,746 | 1,156 |
| Royalty ore | 2,326 | 2,083 | 2,446 | 2,001 | 2,003 | 2,003 | 1,009 | 765 | | |
| Total tons | 3,491 | 3,319 | 3,710 | 3,242 | 3,036 | 2,966 | 2,223 | 2,351 | 2,746 | 1,156 |

Highlights

ATIKOKAN - POPULATION 6,500
TOWNSITE FOR MINES' EMPLOYEES

SRIM LIMITED

PRINTED IN CANADA ALEX WILSON PUBLICATIONS LTD., DRYDEN, ONT.

SRIM LIMITED

STEEP ROCK IRON MINES LIMITED